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MEMORANDUM FOR THE RECORD

SUBJECT: Meeting with the President on Cost Reduction

1. A meeting was called by the President of selected task forces and cabinet heads for the purpose of expressing his cost reduction program for the FY 67 budget. In addition to the President's comments on this matter, numerous agency heads were called on to advise the group on actions taken in their own departments. The President was particularly gratified with the actions taken by the Defense Department and called on Deputy Secretary Vance to give an extensive briefing on methods used in DOD for cost reduction.
2. The thrust of the Presidential instruction to the Director of the Bureau of the Budget and to the group involved two points:
 - a. The identification of steps taken by department and agency heads to eliminate lesser priority activities.
 - b. What new programs are required, in the context of the FY 1967 budget.
3. In emphasizing the importance of point a. above, the President and the Director, BOB, several times pointed out that the savings in DOD, the sale of surplus property, and added tax revenue permitting flexibility in last year's budget totaling \$6 billion would not be available to support the "great society" expansion in FY 67. It would have to be found elsewhere. The President pointed out that the war in Vietnam would require more instead of less resources for DOD. He stressed, therefore, that the flexibility provided to him by the efforts of the Defense Department in cost reduction would evaporate. He stated that the requirements for the "new society" continued to be of prime importance. (In this connection Sargent Shriver subsequently outlined some of the programs being undertaken in the war on poverty.) Therefore, it would be necessary, he said, if we were to continue to get Congressional support essential to moving forward on the domestic front, for all department and agency heads to eliminate unproductive activities and to take broad steps to reduce and curtail those programs which were not absolutely essential.

GROUP 1
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4. The President stated he was prepared to provide the resources necessary for national security, "but only those necessary." He emphasized his conviction that Congressional support would only come if the Congress had full confidence that his administration was presenting an absolutely minimum program in cost to the tax payer. The President asked that the task forces in each agency boldly provide the support he needs in reviewing their programs. He warned that the task force members would run into pressures from key executives within their agencies to the effect that nothing could be eliminated, and that everything was important; continual buck passing could be expected. In this context he cited numerous examples from his own experience, including some in the White House.

5. The President set forth three standards:

a. No program is sacred -- all should face the searching examination of essentiality. No group should worry about the political implications of boldly identifying areas for curtailment. This, the President accepted as his responsibility.

b. Absolute essentiality must be the byword. In this connection, he cited a series of things which he felt should get attention and where material savings could be made, e. g. cost of transportation of people and things, use of cables and other communication media, newspapers, couriers, telephone bills, electric lights. The President placed particular stress on vacancies and manpower levels, saying that it was important for top management personally to satisfy itself that vacancies must be filled. He also applauded the Secretary of Defense for cost effectiveness programs developed directly from the Secretary's office. (This point was later made by the Director, BOB, in calling for forceful budget and management staffs in all agencies.)

c. Imagination in looking for areas of savings and lower cost. The President stated that if the same imagination were put to cost reduction programs that he finds throughout the Government in proposing new programs, he was satisfied that the flexibility he was seeking would be found.

6. In connection with the three criteria outlined above, the President emphasized keeping the proposals for reductions "in the family" until

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he had an opportunity to carefully weigh the relative importance of the various departments' and agencies' submissions. He pointed out that little was gained by permitting rumors to circulate about curtailments which may or may not take place. Implicit in his comment on this point was his insistence on loyalty to him in keeping this information within the family (and presumably from the ears of Congress).

7. At the request of the President, the Director of the Bureau of the Budget, Mr. Schultze, gave a rundown on the budget problems facing the Government in the upcoming period. This was supported by a later presentation by Secretary of the Treasury Fowler on the subject of debt limitations and the importance of Congressional confidence in Government frugality. The Director, BOB, stated that he was under direct orders from the President not to consider any agency's new programs until he had been satisfied that aggressive and precisely identified cost reduction programs were in being, and that eliminations were taking place or were programmed to take place. He stressed he wanted to know what was eliminated before he would consider what was added.

8. The President followed the Director, BOB, for an additional 15 minutes on the importance of this approach. Walking among those present, the President called for "balanced executives." He identified this to mean managers who, in a year-round effort, could keep their organizations eliminating items of work and introducing new work with screening and imagination. He advised that it was his intention to "go down to the farm" with heads of agencies "without staff" to go over, on a line item basis their budget proposals as submitted to the Bureau of the Budget on 30 September. He stated he expected heads of agencies to know their budgets in fine detail and to be prepared to get into as much detail as necessary in discussion with him. He re-emphasized that this means presenting clearly first their cost reduction programs and goals, and second, their ongoing programs and increases. He called for vivid imagination over the next months in preparing budget papers that would be coming to him. He warned that if the task forces or heads of agencies failed in finding reductions and in presenting balanced programs, then he and the Director, BOB, would make the decisions.

9. The President called on Secretary of Agriculture Freeman, Attorney General Katzenbach, and Secretary of the Interior Udall to present statements of their departments' efforts to meet the criteria set forth.

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10. The President the meeting with a restatement in a lighter tone of the warning note cited above.

John M. Clarke
Director of Budget,
Program Analysis and
Manpower

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copies to FPBC members

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Remarks:			
<p>Attached is a Memorandum for the Record written by Clarke concerning the Presidential-chaired economy meeting held last week.</p>			
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FROM: NAME, ADDRESS AND PHONE NO.			DATE
John F. Blake, EO/DD/S&T			7/22/65
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